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Fed Must Restore Confidence in Munis, Arizona Treasurer Says

Oct. 8 (Bloomberg) -- The Federal Reserve, already acting to unfreeze the corporate credit markets, must do the same to restore confidence in municipal bonds, Arizona Treasurer Dean Martin said.

“What we have with the Federal Reserve is like a hedge fund, they are going to buy the assets,” Martin said in an interview on Bloomberg Television today. “That’s good if you have an investment problem, but we have a confidence problem.”

California and other states are trying to get their tax- exempt securities included in a Federal Reserve program to buy commercial paper from companies and bad mortgage debt from banks.

Massachusetts and California Governor Arnold Schwarzenegger told Treasury Secretary Henry Paulson last week they may need help as investors avoided the bonds of states and cities, leaving them short of funds to meet expenses while awaiting tax payments.

Martin said states have been talking to Treasury Department officials for the last month.

“You’re providing insurance for private money-market accounts,” Martin said he told the federal government. “They wouldn’t even listen to our request to provide the same kind of insurance for government money market accounts.”

By Jerry Hart Bloomberg News